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U.S. Net International Investment Position at Yearend 2002

At yearend 2002, the value of foreign investments in the United States exceeded the value of U.S. investments abroad by \$2,387.2 billion (preliminary) with direct investment valued at current cost (Table 1). At yearend 2001, foreign investments in the United States exceeded U.S. investments abroad by \$1,979.9 billion (revised).

The \$407.3 billion increase in the negative net investment position from yearend 2001 to yearend 2002 was mainly due to large net foreign purchases of U.S. securities (mostly of corporate bonds and Treasury securities), a shift by U.S. investors to net sellers of foreign securities, and large stock market price declines that lowered the value of U.S.-owned assets abroad more than foreign-owned assets in the United States. Partly offsetting these negative effects, appreciation of most foreign currencies against the U.S. dollar raised the dollar value of U.S.-owned assets abroad, especially of U.S.-held foreign stocks and U.S. direct investment.

With direct investment valued at the current stock market value of owner's equity, the negative net investment position was \$2,605.2 billion at yearend 2002, compared with \$2,314.3 billion (revised) at yearend 2001. The \$290.9 billion increase on this basis resulted from the same factors as above. Other highlights include:

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- C In regard to transactions, foreign acquisitions of assets in the United States in 2002 were \$707.0 billion, down from \$765.5 billion in 2001 and down from a record \$1,026.1 billion in 2000. Foreign direct investment in the United States slowed substantially to the lowest level since 1992, as a result of a further drop off in foreign acquisitions of U.S. companies and reductions in debt owed by affiliates to their foreign parents. Net foreign purchases of U.S. securities other than U.S. Treasury securities also slowed; net purchases of U.S. stocks dropped to the lowest level since 1998, but net purchases of U.S. bonds were the third highest on record. Net foreign purchases of U.S. Treasuries rebounded after three years of net sales. Inflows reported by U.S. banks slowed but remained relatively strong, and inflows reported by U.S. nonbanks increased somewhat.
- C U.S. acquisitions of assets abroad in 2002 were \$179.0 billion, down from \$349.9 billion in 2001 and down from a record \$569.8 billion in 2000. U.S. investors shifted to net sellers of foreign securities for the first time, as a result of substantially reduced net purchases of foreign stocks and stepped up net sales of foreign bonds. U.S. banks' claims on foreigners decelerated to the smallest increase since 1994. U.S. nonbanks' claims on foreigners rebounded somewhat. U.S. direct investment abroad accelerated.
- C Price depreciation of U.S. stocks reduced the value of foreign holdings of U.S. stocks and substantially reduced the value of owners' equity of foreign direct investment in the United States on a market value basis. Price depreciation of foreign stocks also diminished the value of U.S. holdings of foreign stocks and substantially reduced the value of owners' equity of U.S. direct investment abroad on a market value basis.
- C Appreciation of most foreign currencies against the U.S. dollar from yearend 2001 to yearend 2002 raised the dollar value of all foreign-currency denominated assets and liabilities, especially the value of U.S.-held foreign stocks and U.S. direct investment abroad.

Valuation Methods for Direct Investment

The current-cost method values the U.S. and foreign parents' share of their affiliates' investment in plant and equipment using the current cost of capital equipment, in land using general price indexes, and in inventories using estimates of their replacement cost.

The market-value method values the owners' equity component of the direct investment position using indexes of stock market prices.

The historical-cost method values all assets and liabilities at their book value. Country and industry detail can be shown only under this method. Data on this basis are not presented in this release.

U.S.-owned assets abroad increased \$1.8 billion to \$6,189.2 billion with U.S. direct investment valued at current cost, and they decreased \$417.7 billion to \$6,473.6 billion with U.S. direct

investment valued at market value.

Claims on foreigners reported by U.S. banks increased \$31.9 billion to \$1,455.1 billion, reflecting a sharp slowdown in lending to foreigners amid weak economic and financial conditions abroad and a further reduction in merger and acquisition activity.

U.S. holdings of foreign securities decreased \$267.8 billion to \$1,847.0 billion. Holdings of foreign stocks decreased sharply as a result of large price depreciation that more than offset exchange rate appreciation and small net U.S. purchases. Holdings of foreign bonds were almost unchanged as a result of price appreciation and exchange rate appreciation that were more than offset by net U.S. sales.

U.S. direct investment abroad at current cost increased \$153.8 billion to \$1,751.9 billion; at market value, it decreased \$265.7 billion to \$2,036.2 billion. In 2002, net financial outflows accelerated to \$137.8 billion, but remained well below record outflows of \$224.9 billion in 1999. At current cost, financial outflows and exchange rate appreciation more than accounted for the increase in the position. At market value, financial outflows and exchange rate appreciation were more than offset by large declines in U.S. owners' equity, as foreign stock market prices fell sharply in 2002.

Claims on unaffiliated foreigners reported by U.S. nonbanking concerns increased \$55.2 billion to \$891.0 billion, reflecting strong U.S. deposits in Western Europe and a pickup in U.S. deposits at the Caribbean banking centers. Exchange rate appreciation also increased the value of claims.

U.S. official reserve assets increased \$28.6 billion to \$158.6 billion, as a result of strong price appreciation in the market value of the U.S. gold stock and of exchange rate appreciation.

Foreign-owned assets in the United States increased \$409.1 billion to \$8,576.4 billion with foreign direct investment valued at current cost, and they decreased \$126.8 billion to \$9,078.7 billion with foreign direct investment valued at market value.

U.S. liabilities to private foreigners and international financial institutions reported by U.S. banks increased \$101.0 billion, to \$1,407.4 billion. Although inflows were down from last year, U.S. banks continued to receive sizable amounts of funds from securities brokers and from parents and branches overseas.

Foreign holdings of U.S. securities other than U.S. Treasury securities, excluding official holdings, increased \$5.4 billion to \$2,861.1 billion. Holdings of U.S. bonds increased as a result of relatively strong net foreign purchases, price appreciation, and exchange rate appreciation. Holdings of U.S. stocks decreased substantially, as moderate net foreign purchases were more than offset by sharp price depreciation.

Holdings of U.S. Treasury securities by private foreigners and international financial institutions increased \$114.6 billion to \$503.6 billion, reflecting a sizable shift in foreign transactions to net purchases of \$96.2 billion after three years of net sales. Sizable price appreciation at a time when interest rates were falling to historical lows also increased the value of foreign holdings.

Foreign direct investment in the United States valued at current cost decreased \$9.9 billion to \$1,504.4 billion; at market value, it decreased \$545.8 billion to \$2,006.7 billion. In 2002, net financial inflows decreased sharply to \$39.6 billion, the lowest level since 1992. At current cost, net financial inflows were more than offset by negative valuation adjustments resulting from price depreciation, capital losses of affiliates, and other valuation changes. At market value, net financial inflows were more than offset by substantial price depreciation in owners' equity resulting from the decline in U.S. stock market prices.

Liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns increased \$71.1 billion to \$870.3 billion, reflecting U.S. corporate borrowing, mostly from Western Europe and the Caribbean.

U.S. currency held by foreigners increased \$21.5 billion to \$297.1 billion. The pace of shipments slowed a little, but the increase remained relatively strong as a result of economic problems in several areas of the world.

Foreign official assets in the United States increased \$105.3 billion to \$1,132.5 billion, the largest increase since 1996. Net foreign official purchases of U.S. Treasury securities increased sharply, and were augmented by price appreciation.

* * *

Revisions

The previously published estimate of the net international investment position in 2001 at current cost was -\$1,948.1 billion, and at market value was -\$2,309.1 billion.

Revisions this year include the incorporation of results from the U.S. Treasury Department's Benchmark Survey of U.S. Portfolio Investment Abroad as of December 2001 and results from BEA's Benchmark Survey of U.S. Direct Investment Abroad for 1999. Results from the Benchmark Survey of U.S. Portfolio Investment Abroad indicate an overstatement in the previously published estimates of U.S. holdings of foreign bonds. Consequently, U.S. holdings of foreign bonds for 1998-2001 are revised down. The survey results also indicate that U.S. holdings of foreign stocks are overstated for 1998 and 1999, but are understated for 2000 and 2001. Consequently, 1998 and 1999 are revised down, and 2000 and 2001 are revised up. For the entire period of 1998-2001, revisions to estimates of U.S. holdings of foreign securities have little effect on the size of the U.S. net international investment position. BEA's Benchmark Survey of U.S. Direct Investment Abroad for 1999 indicates a small understatement in direct investment abroad in 1999. The direct investment abroad estimates also incorporate updated data from annual surveys for 2000-2001.

In addition to the above improvements, all estimates are revised as a result of newly available or revised quarterly and annual survey results and other data. Revisions attributable to updated source data are for 1998-2001.

A more detailed discussion of the U.S. net international investment position in 2002 and the revised historical data will appear in the July issue of the Survey of Current Business. That issue will also contain an article about historical-cost direct investment positions, with detail by country and industry, and revised direct investment historical data. Historical-cost data that previously appeared in this release will be posted on BEA's Web site at <www.bea.gov>.

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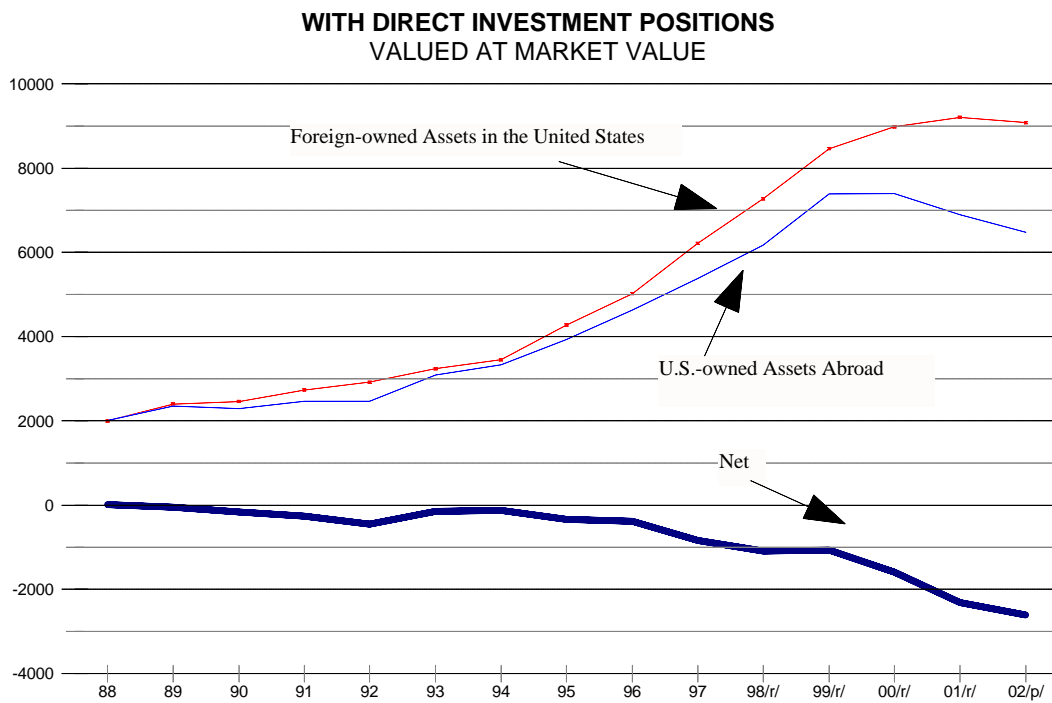
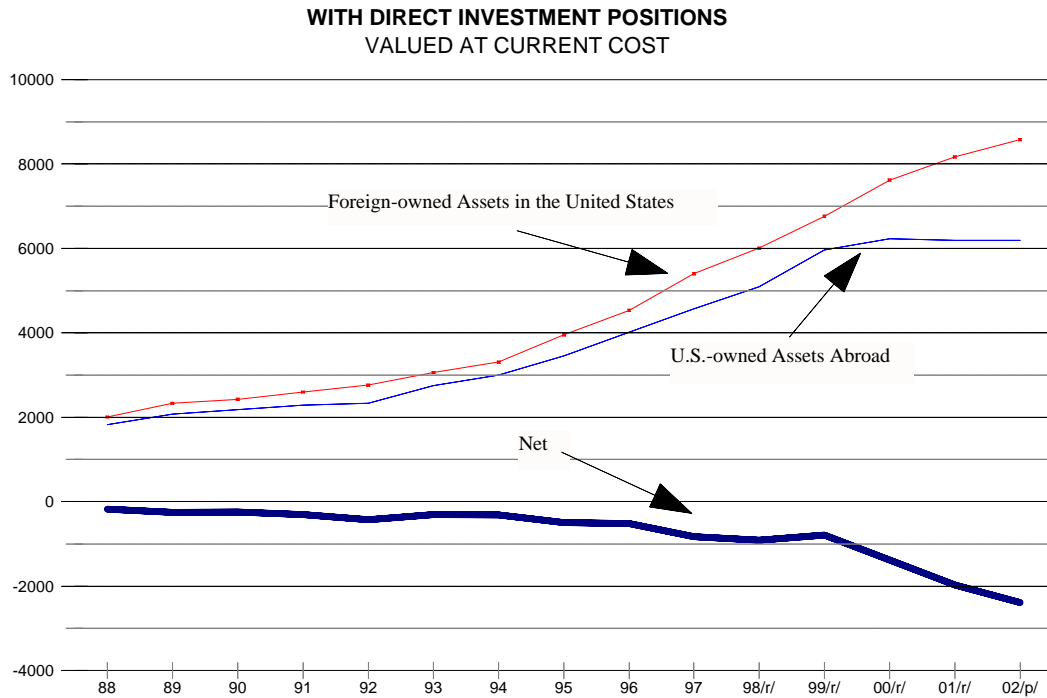
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Net International Investment Position of the United States at Yearend, 1988 - 2002

Billions \$



p Preliminary.

r Revised.

Source: Bureau of Economic Analysis

Table 1.--International Investment Position of the United States at Yearend, 2001 and 2002

[Millions of dollars]

Line	Type of investment	Position, 2001 /r/	Changes in position in 2002 (decrease (-), increase (+))					Position, 2002 /p/
			Attributable to:				Total (a+b+c+d)	
			Financial flows (a)	Valuation adjustments				
				Price changes (b)	Exchange rate changes /1/ (c)	Other changes /2/ (d)		
	Net international investment position of the United States:							
1	With direct investment positions at current cost (line 3 less line 16).....	-1,979,906	-527,998	-83,284	147,129	56,848	-407,305	-2,387,211
2	With direct investment positions at market value (line 4 less line 17).....	-2,314,271	-527,998	-42,105	230,053	49,166	-290,884	-2,605,155
	U.S.-owned assets abroad:							
3	With direct investment positions at current cost (lines 5+6+7).....	6,187,410	178,985	-365,107	182,335	5,568	1,781	6,189,191
4	With direct investment positions at market value (lines 5+6+8).....	6,891,251	178,985	-847,812	264,680	-13,542	-417,689	6,473,562
5	U.S. official reserve assets.....	129,961	3,681	18,492	6,482	-14	28,641	158,602
6	U.S. Government assets, other than official reserve assets.....	85,654	32	....	....	....	32	85,686
	U.S. private assets:							
7	With direct investment at current cost (lines 9+11+14+15).....	5,971,795	175,272	-383,599	175,853	5,582	-26,892	5,944,903
8	With direct investment at market value (lines 10+11+14+15).....	6,675,636	175,272	-866,304	258,198	-13,528	-446,362	6,229,274
	Direct investment abroad:							
9	At current cost.....	1,598,072	137,836	-5,215	25,577	-4,418	153,780	1,751,852
10	At market value.....	2,301,913	137,836	-487,920	107,922	-23,528	-265,690	2,036,223
11	Foreign securities.....	2,114,734	-15,801	-378,384	126,427	....	-267,758	1,846,976
12	Bonds.....	502,061	-33,478	21,274	11,927	....	-277	501,784
13	Corporate stocks.....	1,612,673	17,677	-399,658	114,500	....	-267,481	1,345,192
14	U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns.....	835,780	31,880	....	13,301	10,000	55,181	890,961
15	U.S. claims reported by U.S. banks, not included elsewhere.....	1,423,209	21,357	....	10,548	....	31,905	1,455,114
	Foreign-owned assets in the United States:							
16	With direct investment at current cost (lines 18+19).....	8,167,316	706,983	-281,823	35,206	-51,280	409,086	8,576,402
17	With direct investment at market value (lines 18+20).....	9,205,522	706,983	-805,707	34,627	-62,708	-126,805	9,078,717
18	Foreign official assets in the United States.....	1,027,194	94,860	10,476	....	....	105,336	1,132,530
	Other foreign assets:							
19	With direct investment at current cost (lines 21+23+24+27+28+29).....	7,140,122	612,123	-292,299	35,206	-51,280	303,750	7,443,872
20	With direct investment at market value (lines 22+23+24+27+28+29).....	8,178,328	612,123	-816,183	34,627	-62,708	-232,141	7,946,187
	Direct investment in the United States:							
21	At current cost.....	1,514,374	39,633	-6,060	579	-44,098	-9,946	1,504,428
22	At market value.....	2,552,580	39,633	-529,944	....	-55,526	-545,837	2,006,743
23	U.S. Treasury securities.....	389,000	96,217	18,413	....	....	114,630	503,630
24	U.S. securities other than U.S. Treasury securities.....	2,855,705	291,492	-304,652	18,570	....	5,410	2,861,115
25	Corporate and other bonds.....	1,391,616	236,309	43,801	18,570	....	298,680	1,690,296
26	Corporate stocks.....	1,464,089	55,183	-348,453	....	....	-293,270	1,170,819
27	U.S. currency.....	275,569	21,513	....	....	....	21,513	297,082
28	U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns.....	799,120	72,142	....	6,179	-7,182	71,139	870,259
29	U.S. liabilities reported by U.S. banks, not included elsewhere.....	1,306,354	91,126	....	9,878	....	101,004	1,407,358

p Preliminary.

r Revised.

1. Represents gains or losses on foreign-currency-denominated assets due to their revaluation at current exchange rates.

2. Includes changes in coverage, capital gains and losses of direct investment affiliates, and other statistical adjustments to the value of assets.

Source: Bureau of Economic Analysis